HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

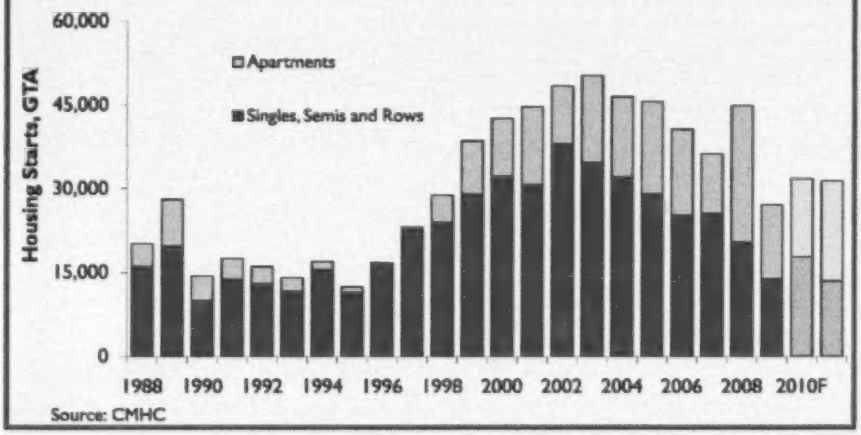
Date Released: Fall 2010

Market at a Glance

- MLS® sales and selling prices in the GTA will stabilize and gradually increase over the course of next year. In comparison to 2010, the totals for 2011 will be slightly lower due to very strong activity in the first part of this year. MLS sales will reach 81,500, while the average selling price for the year will be approximately $428,000.
- New homes sales will total 26,500 units in 2011, with high rise projects accounting for the majority share of transactions (55 per cent). Total housing starts will remain at virtually the same level as 2010 (approximately 30,000) as strong apartment starts offset a decline in single detached construction.
- The unemployment rate in Toronto will edge lower but remain elevated next year. As a result, incomes will continue to grow below the rate of inflation.

Figure 1

Higher Apartment Starts Next Year[1]



Source: CMHC

[1] The forecasts included in this document are based on information available as of October 8, 2010.

Table of Contents

1 Market at a Glance
2 Resale Market
3 New Home Market
4 Local Economy
5 Forecast Summary

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Figure 2

Resale Market

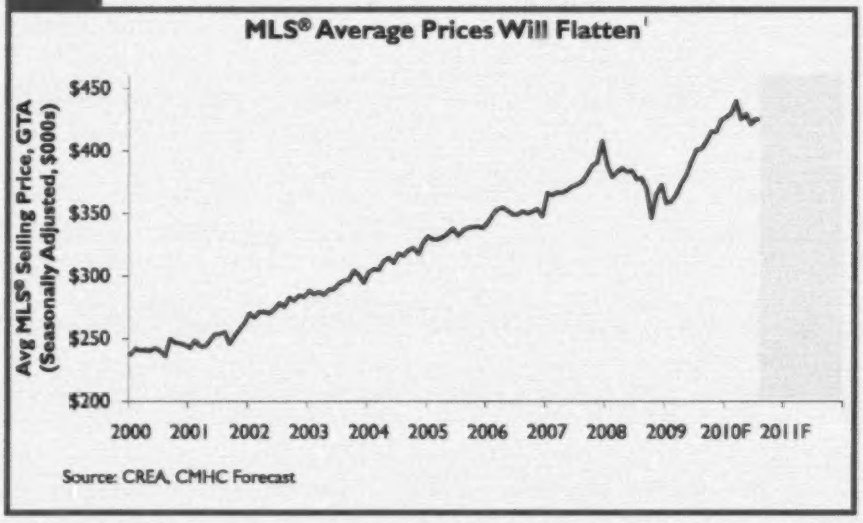
Less excitement in store for 2011

The Greater Toronto Area's resale market is expected to normalize in 2011. After an unprecedented level of volatility experienced over the past couple of years, sales will settle into a range reminiscent of the 2003-2006 period — decent volumes without dramatic movements. One change on the horizon is an absence of the seller's market conditions the GTA has been accustomed to for much of the past decade. Buyers can sigh in relief as prices will see very little movement from today's levels. While developments in the housing market will likely attract fewer headlines in the coming year, take that as a sign that we have transitioned towards a more sustainable level of activity reflective of the current economic environment.

In fact, the market already appears to be settling into its comfort zone. Sales are currently in the low end of the 75,000 to 85,000 annualized range expected for the rest of this year and throughout 2011, which largely reflects a rebalancing from record levels set in the early part of 2010. Homeownership demand is expected to gain momentum in the second half of next year as the GTA economy is now starting to bring full-time employment beyond the pre-recession peak (see Local Economy section). Continued low interest rates will keep households interested in buying, but won't lead sales to new highs. Prices in the resale market are no longer at stimulative levels after growing faster than incomes over the past couple years. This will impact sales coming from first-time buyers, who typically have below-average incomes and savings.

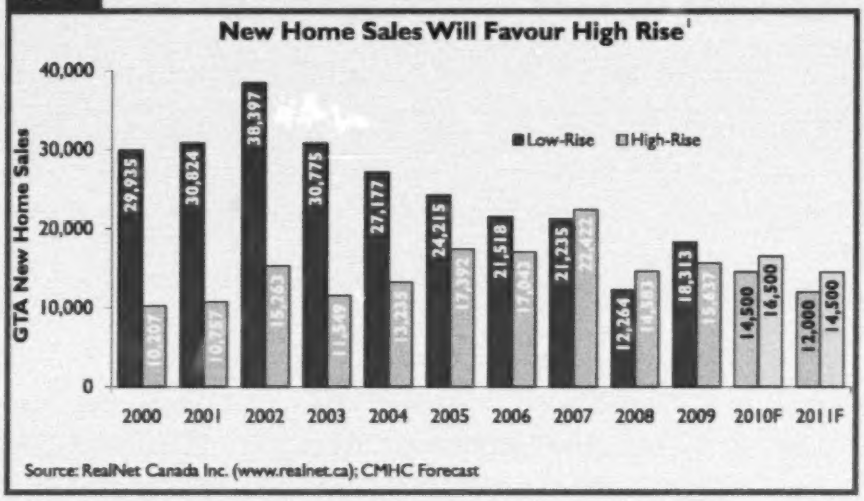
While overall sales levels and price growth will be lower than in the preceding couple of years, opportunities for growth will continue to present themselves in 2011. Next year, the share of the population in their prime income earning years (45-54) will peak — meaning the reduction in first-time buyers should be at least partially offset by greater sales from move-up buyers. As a result, above-average priced areas of the GTA should continue to attract interest in 2011. The empty-nester and retiree population is also expanding quickly, as is the trend towards downsizing. Results from CMHC's Renovation and Home Purchase Report indicate that 40 per cent of home purchasers aged 65 plus bought a condo. A large number of newly completed units hitting the market will present buyers with ample choice and more flexible prices. Research conducted by CMHC reveals that one-third of the 20,000

Figure 3



units registered in 2009 and the first half of 2010 were listed for sale during the period. Prices for these recently finished suites are comparable to prices at pre-construction sales centres, allowing buyers with more options to buy "new" without the long construction wait. While first-time buyers will likely look more towards the condo market next year, they also tend to broaden their geographic scope when ownership becomes less affordable. Sales in areas close to the city yet offering prices 10-20% below the GTA average, such as Pickering, Ajax, Whitby, northern Mississauga and Brampton, are expected to perform relatively better next year.

Figure 4



Source: RealNet Canada Inc. (www.realnet.ca); CMHC Forecast

New Home Market

More challenges await next year

A relatively weaker outlook for new homes sales is expected in 2011. The new home market typically experiences more pronounced declines than the resale market when conditions soften. Resale volumes can derive some stability from the turnover of a large and growing stock, whereas the new home market has to rely on its more limited offerings to attract buyers. A decade low number of transactions for low rise homes will be recorded (12,000), while high rise sales will range between levels reached in the 2002-2004 period, totalling 14,500 in 2011. One area of growth in the new home market next year will be the construction of high rise units, which will see starts rise by nearly 30 per cent thanks to strong condo sales in late 2009-early 2010.

The elevated level of high rise starts next year will be matched by an equivalent number of completions. In a way, the high level of completions will help builders by freeing up resources to begin construction on new projects. In another sense, more finished units will mean more resale listings, which will compete with builders' unsold inventory of units. New condo sales are expected to give up share to the resale market, as buyers take advantage of the increased selection and improved negotiation power for existing units. While developers of new condos have less flexibility in adjusting prices due to construction costs and agreements with lenders, this doesn't presume that prices will continue to grow at 5-10 per cent annual rates. In fact, the growing gap between prices for new unsold product and selling prices in the resale market should require an adjustment in inventory. Builders will need to focus on keeping first-time buyers and long-term investors interested by launching smaller-sized and more affordable units, as well as opening more sales sites in less expensive areas outside of the downtown core. Tempering growth in new condo prices will ensure the market remains competitive with resale listings. Furthermore, limiting the number of new launches to reflect a slower sales environment will prevent an over supply situation and prolonged project absorption periods.

Developers of low rise homes will face the same challenge as their high rise counterparts in attempting to effectively compete with the resale market and keep a lid on price growth. However, the main obstacle faced in the low rise market is on the supply side — the number of units currently available to build is half the level in the high rise market. Reduced supply that is largely located in the higher priced York Region will lead to further gains in new home prices next year, even with lower sales levels. Two-thirds of the low rise units for sale in the GTA are single detached homes with average prices approaching $600,000. However, by shifting focus to more affordable areas with greater land supply as well as smaller and less expensive homes, price pressures should be contained to around the rate of inflation. Single detached starts will decline markedly next year, but

expect activity to move more into the Durham Region — currently offering about one-third of the GTA's inventory of singles ready to build. Builders will also turn their attention more towards the construction of row homes, which will represent one-third of low rise housing starts in 2011.

Local Economy

Slow road ahead

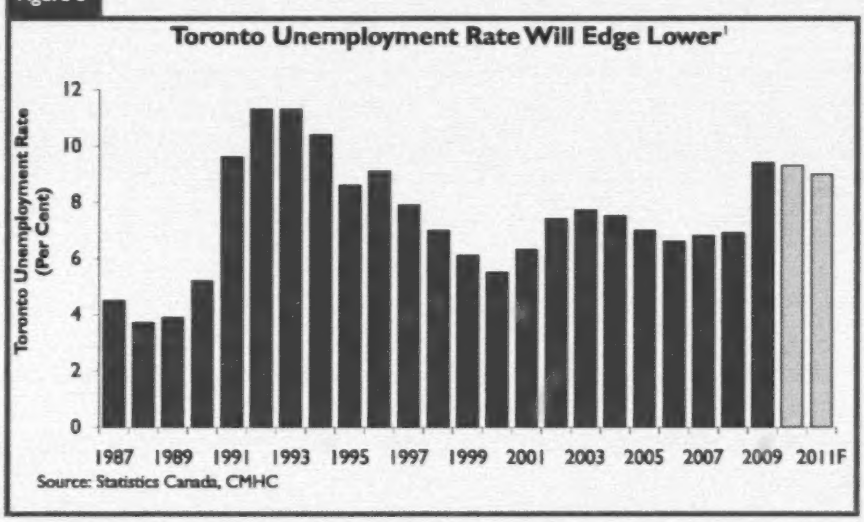
The relatively quick turnaround for employment will be a stabilizing factor for housing sales and construction in 2011. However, digging beneath the headline job recovery reveals a Toronto labour market not yet ready to bring housing activity back near peak levels. Since developments in the labour market typically impact the housing market six-to-nine months down the road, it is important to understand current developments and the near-term outlook for the employment situation to set expectations for the market in 2011.

Although employment has now returned to its pre-recession level (Q3 2008), the number of people looking for work has shown unabated growth over the past two years. As a result, unemployment remains high and only a slight decline in the jobless rate is expected next year — which will stay well above the average for the past decade. The labour force will continue to expand as immigrants flow into the area and net migration rises, while the sectors that have provided pillars of strength for job creation are expected to scale back hiring next year. A slower housing market will reduce hiring in the real estate services and construction industry, and a downgraded outlook for global demand will keep corporate profits below peak levels, limiting job openings in the manufacturing and financial sectors. Furthermore, the reduced share of full-time jobs should show little improvement next year as employers continue to exhibit caution by hiring more part-time workers and adding hours back to existing full-time positions. As a result, wage growth will remain below the rate of inflation. All told, job creation over the next six months will bring the level of employment above previous highs. However, growth will be tepid and considerable slack will remain in the labour market, translating into modest growth in housing sales in the second half of next year.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Figure 5



Forecast Summary
Toronto CMA
Fall 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	95,164	76,387	89,255	86,000	-3.6	81,500	-5.2
MLS® New Listings	155,093	163,169	136,096	156,000	14.6	146,000	-6.4
MLS® Average Price ($)	377,029	379,943	396,154	429,300	8.4	427,700	-0.4
New Home Market							
Starts:							
Single-Detached	14,769	11,308	8,130	9,850	21.2	6,500	-34.0
Multiples	18,524	30,904	17,819	19,900	11.7	23,100	16.1
Semi-Detached	2,864	2,362	2,032	1,700	-16.3	1,600	-5.9
Row/Townhouse	5,280	4,612	2,918	4,700	61.1	4,200	-10.6
Apartments	10,380	23,930	12,869	13,500	4.9	17,300	28.1
Starts - Total	33,293	42,212	25,949	29,750	14.6	29,600	-0.5
Average Price ($):							
Single-Detached	515,325	540,560	582,123	605,500	4.0	617,600	2.0
Median Price ($):							
Single-Detached	446,990	480,900	496,945	519,300	4.5	532,300	2.5
New Housing Price Index (1997=100) (Toronto-Oshawa)	2.7	3.5	-0.1	2.9		2.0	
Rental Market							
October Vacancy Rate (%)	3.2	2.0	3.1	3.2	0.1	2.9	-0.3
Two-bedroom Average Rent (October) ($)	1,061	1,095	1,096	1,104	-	1,117	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	2,865,500	2,922,800	2,890,500	2,964,000	2.5	3,041,000	2.6
Employment Growth (%)	2.3	2.0	-1.1	2.5	-	2.6	-
Unemployment rate (%)	6.8	6.9	9.4	9.3	-	9.0	-
Net Migration	61,058	63,102	58,419	63,500	8.7	69,000	8.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Oshawa CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	10,217	8,797	9,328	9,200	-1.4	8,650	-6.0
MLS® New Listings	17,153	18,574	13,485	17,000	26.1	16,800	-1.2
MLS® Average Price ($)	265,620	272,429	278,505	299,500	7.5	297,500	-0.7
New Home Market							
Starts:							
Single-Detached	1,747	1,500	836	1,440	72.2	1,040	-27.8
Multiples	642	487	144	310	115.3	406	31.0
Starts - Total	2,389	1,987	980	1,750	78.6	1,446	-17.4
Rental Market							
October Vacancy Rate (%)	3.7	4.2	4.2	4.1	-0.1	3.8	-0.3
Two-bedroom Average Rent (October) ($)	877	889	900	917	-	935	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	181,500	186,100	179,500	188,200	4.8	189,700	0.8
Employment Growth (%)	2.4	2.5	-3.5	4.8	-	0.8	-
Unemployment rate (%)	6.2	7.1	9.0	10.3	-	9.9	-

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Toronto Real Estate Board, Statistics Canada (CANSIM)

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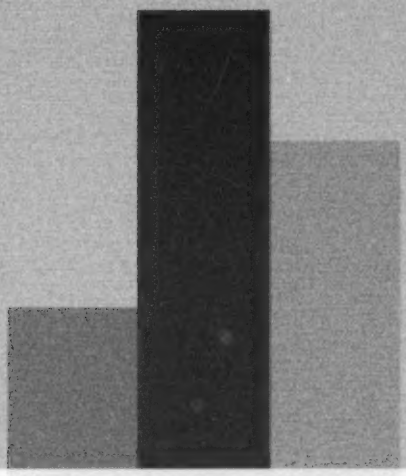

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